

USAWC STRATEGY RESEARCH PROJECT

**INCREASING ARMY RETENTION THROUGH INCENTIVES**

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## **ABSTRACT**

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As the U.S. Military continues to use an all-volunteer force to recruit soldiers into the Army, it is facing challenges in recruiting and retaining quality enlisted soldiers. If the Army fails to address the enlisted retention issue in the near future, departures of experienced NCOs will have a detrimental impact our military's ability to provide for our nation's security. Increasing operational tempo and extended deployments are already hindering retention of quality mid-grade NCOs. This study examines current retention issues and the Army Incentive Model. The model appears to offer a range of benefits that may retain a segment of what demographers have labeled as the "Millennium Generation." This cohort of young people is looking for benefits tailored to meet their wants and needs almost immediately—or—they will leave. Given the Army's need for retention, this study advocates that in addition to the retention benefits found in the Army's Incentive Model, personnel planners should also create a Career Professional NCO corps oriented toward retaining the best and brightest of this cohort--something the Army desperately needs if it is to meets its increased OPTEMPO and help win the war against global terrorism.



## INCREASING ARMY RETENTION THROUGH INCENTIVES

The Army operational tempo has increased significantly since the tragic attacks of 11 September 2001 and the start of the Global War on Terrorism (GWOT). In what appears a long protracted war against terror, some Army units are beginning their second year-long rotations to Iraq and/or Afghanistan. As this increasing operational tempo continues, the strain of deployments will cause many soldiers who have gained invaluable skills and experience in combat operations to leave. Undoubtedly this loss, especially in the rank of the junior Non-Commissioned Officers (NCOs) will eventually degrade Army readiness. Consequently the Army must find ways to retain these highly trained and skilled soldiers. If this Army retention issue is not addressed in the very near future, it will have a significant impact our military's ability to provide for our nation's security.

This SRP will evaluate the issues and challenges of retaining quality soldiers. It will show why soldiers are getting out of the Army and propose retention options for the Army G1 to consider to entice these highly skilled NCOs and primarily combat veterans to stay in the Army. Four retention options that the Department of Army should consider to keep soldiers in are monetary incentives, revise the REDUX retirement plan, create a Career Professional NCO Corps, change the two to four year college plan for the soldier or his/her family member and initiate the new Army Incentive Model program.

### Background

Since the end of the Cold War, our armed forces have experienced a reduction in personnel, but demands on our military forces have increased at the same time. Indeed, our military's current operational tempo is greater today than it has been for the last twenty years. In the past decade, our military has deployed to Haiti, Kosovo, Bosnia, Somalia, Iraq, and Afghanistan to conduct operations from Peace Keeping, Peace Enforcement, and Humanitarian Assistance to the ongoing war against terror, which is currently conducted in 128 countries around the world. This significantly increased operational tempo especially in Iraq, has further extended deployments of all ten of our Army divisions, our special operations units, and numerous Reserve and National Guard units rotating to Iraq and Afghanistan. These on-going demands have begun to have detrimental effects on Army readiness.

The United States has three core strategic interests: preserve American security, bolster economic prosperity, and promote values.<sup>1</sup> Supporting the core interest of preserving American security includes the strategic objective of securing the United States from direct attack.<sup>2</sup> The 2005 National Defense Strategy states that we will deter attacks by maintaining capable and

rapidly deployable forces and, when necessary, demonstrating the will and capability to resolve conflicts decisively on favorable terms.<sup>3</sup> Therefore, it is strategically vital for our military to retain our experienced soldiers and NCOs. If we do not, their unavailability will threaten the Army's readiness and ability to conduct missions to support the National Security Strategy. In the near future, the U.S. Army will begin losing substantial numbers of soldiers, especially junior NCOs who have gained valuable technical, tactical, and leadership skills in recent combat operations. These soldiers will soon tire of the multiple extended deployments and decide to leave the Army so they can spend quality time with their families and enjoy less demanding employment opportunities. When retention of these critical soldiers declines, our military readiness will also erode because we will lack the required experience, leadership skills and combat experience that our military needs to continue the GWOT.

Our experience in the war on terrorism has indisputably revealed the need to reorient our military capabilities to contend with these irregular terroristic challenges more effectively.<sup>4</sup> Our Army is now fighting small groups of non-state terrorists, not the traditional nation-state armies we faced in the past. This new challenge has drawn us into a conflict in which we are conducting non-traditional operations against small terrorist cells.<sup>5</sup> Junior NCOs and soldiers are critical to the success of such operations because they are learning how to lead and fight in this new operational environment. In small unit operations, critical junior NCO skills and leadership have become essential for success. Clearly, retention efforts should be carefully managed to ensure that the right skills and specialties are retained at sufficient levels to keep the Army ready to fulfill its worldwide commitments.

The current Army Retention Program purportedly provides a way to retain quality NCOs. The objectives of the retention program focus on sustaining a trained and ready Army by:

- Reenlisting highly qualified soldiers, consistent with Army needs.
- Enlisting or transferring qualified transitioning soldiers into a Reserve unit based on the soldier's qualification and unit vacancies.
- Achieving and maintaining Army force alignment by reenlisting qualified soldiers in critical/required skills.
- Obtaining maximum command involvement at every echelon of command.<sup>6</sup>

"The Retention Program is dependent on many factors, both internal and external to the Army. Among the external factors that we cannot influence are the economy, civilian job market, and the world situation. The internal factors we can affect are benefit packages, promotions, deployments and attractive incentive packages- including reenlistment bonuses".<sup>7</sup> Consider the Army retention rates for the last five years. The retention statistics for FY 2000

through FY2004 affirm that the Army is not currently having a problem with retaining soldiers (See Table 1 and 2). However, for the first quarter of fiscal year 2005, data indicates that the Army missed its initial reenlistment goal for active duty enlisted personal by six percent and its mid-career reenlistment goal by four percent.<sup>8</sup> Stop-loss orders that prevent some military personnel from leaving the service at the scheduled end of their tours, together with a surge of patriotism after 9/11, together with limited awareness to date of just how long the Iraq mission is likely to last, have limited the fallout of over deployments.<sup>9</sup> But there can be no assurance that this state of affairs will continue. The current shortfalls have been softened by the Army's on-going Stop Loss program, are making the retention rates of soldiers look a lot better than they really are.

	FY 2000			FY 2001		
	Goal	Actual	Percentage	Goal	Actual	Percentage
Initial	20,000	21,402	107	19,750	20,000	101
Mid-Career	23,200	24,118	104	23,350	23,727	102
Career	24,800	25,791	104	20,900	21,255	102

TABLE 1<sup>10</sup>

	FY 2002			FY 2003			FY 2004		
	Goal	Actual	Percentage	Goal	Actual	Percentage	Goal	Actual	Percentage
Initial	19,100	19,433	102	19,821	21,838	110	23,000	24,903	108
Mid-Career	22,700	23,074	102	18,422	19,509	106	20,292	21,120	104
Career	15,000	15,730	105	12,757	12,804	100	12,808	13,987	109

TABLE 2<sup>11</sup>

The retention rates show the Army's aggregate retention rate for initial, mid-career, and career soldiers, but they do not show retention rates by military occupation. Indeed, occupational breakouts of retention data were not available for this analysis. None the less Army FY 2005 retention data show that while 63% of the Army's active component occupations are over strength, 32% are under strength.<sup>12</sup> The hard truth is that the Army is having difficulties in retaining Infantry, Explosive Ordnance Disposal, Field Artillery, and Human Intelligence collectors. The December 2005 Army fill rate for these critically short specialties was 88% for Infantry, 82% for EOD, 77% for Field Artillery, and only 65% for Human Intelligence collectors.<sup>13</sup> In all likelihood, the Army will continue to lose the soldiers and mid-grade NCOs the Army most needs in the near future. The Army attributes retention problems to the fifteen reasons listed below in Table 3. The four most common reasons the Army has problems retaining quality soldiers are quality of life, amount of Pay (Basic pay), overall quality of life, and amount of job satisfaction.<sup>14</sup>

Reason to get out/Year of results	1998	1999	2000	2001	2002	2003	2004	2005
Amount of time separated from family	<b>10.2%</b>	10.5%	10.1%	11.4%	14.5%	18.0%	18.4%	<b>17.2%</b>
Amount of Pay (Basic)	16.6%	20.0%	23.2%	21.7%	16.3%	14.4%	14.0%	12.3%
Overall Quality of Army Life	12.0%	14.9%	13.4%	12.2%	10.4%	13.2%	11.4%	11.9%
Amount of enjoyment from my job	5.8%	5.2%	5.2%	6.5%	7.1%	6.3%	5.7%	7.9%
Promotion/Advancement Opportunities	5.7%	4.7%	3.8%	4.9%	5.3%	6.4%	6.7%	5.0%
Quality of Leadership at place of duty	5.3%	4.3%	5.3%	4.8%	7.0%	4.8%	5.0%	4.9%
Level job fulfillment/challenge	2.9%	3.0%	2.8%	2.7%	3.1%	2.8%	1.6%	3.7%
Level of competence of supervisors	1.8%	1.7%	1.8%	2.3%	1.6%	1.2%	6.7%	3.4%
Amount of personnel available to do the work	0.7%	1.1%	1.4%	0.9%	1.6%	1.3%	1.7%	3.2%
Opportunity to select job, training or station of choice	2.3%	2.9%	3.4%	3.9%	4.4%	3.0%	4.4%	2.9%
Amount of respect from superiors	2.5%	3.4%	2.8%	3.0%	2.4%	2.4%	2.5%	2.9%
Overseas Duty	0.7%	0.8%	1.1%	0.8%	0.8%	1.7%	1.6%	2.4%
Access to Education and Training	2.6%	1.8%	2.7%	2.4%	2.7%	1.8%	2.0%	1.4%
Use of my skills/education on the job	1.0%	1.0%	2.0%	1.4%	3.2%	3.0%	1.6%	1.4%
<b>Retirement Benefits</b>	<b>10.6%</b>	7.2%	3.0%	2.2%	1.4%	0.6%	0.6%	<b>0.9%</b>

TABLE 3

#### The Current Army Program - AIMs

Above, the Army lists fifteen reasons that soldiers depart the Army. The services list four factors that are very similar to the Army's reasons that can be attributed to retention problems. They are trends in the civilian economy, operational tempo, job satisfaction, and quality of life.<sup>15</sup> The factors are predicated upon the assumption that today's youth are more concerned with meeting immediate needs rather than long-term ones. They are a millennium generation, according to military planners that is about "getting what [they] want... when [they] want... how [they] want it...."<sup>16</sup>

The Army has taken several new initiatives to meet its retention goals. It is about to announce the new Army Incentive Model (AIM) that will transform the Army's incentive system. If this policy is approved, the Army could implement it as early as the summer of 2007.

#### Army Incentive Model

The current Army incentive program is too rigid, and not flexible enough to appeal to the new Millennium Generation. This is all about to change. The new AIM will go a long way towards resolving most of the issues the current Army retention program<sup>17</sup>. The AIM program is flexible and will appeal to the needs of the new generation, thus assist in retaining quality soldiers. In the current program, when a soldier receives an enlistment or reenlistment incentive, such as money for college, the soldier is bond to the choice he made during his



FIGURE 1<sup>18</sup>

enlistment or reenlistment. The purpose of the AIM program is to give the soldier the option to change his initial choice and move money from one account to another between options- in any combination, at anytime, regardless of military status.<sup>19</sup> This new program provides an enlistment and reenlistment incentive, not an entitlement; it is open to all ranks, both enlisted and officers.<sup>20</sup> The new program will provide the soldiers a choice between Army Home ownership, Army Business Fund, Army College Fund Army Mortgage Fund; soldiers may even elect to move some cash into the Army Thrift Savings Plan.<sup>21</sup> The AIM program added the Army Home Ownership, Army Business Fund, and the Mortgage Loan Repayment plans, and it allows soldiers to move money among options during his time in the military. It has also been designed to allow for the incorporation of new incentive programs into the model.

In this program, soldiers choose which option or options they would like when they enlist or reenlist. The money is then sent to the soldiers' accounts. The Army has not yet decided if these accounts will be managed by a civilian contracting firm or a central business unit that is a dollar warehouse or depository for the soldiers' incentives.<sup>22</sup> Even after soldiers deposit their incentive money into the holding facility, they can always change their minds and move it to another reenlistment option. "For example, a qualified prospect signs a four-year active duty reenlistment and chooses the \$32,000 Army College Fund. In the past, the soldier could not change the initial option. With the AIM program a soldier can decide at a later date that they have changed their lifestyle, decided to start a family, and this lowers the soldier's interest in college. They may then decide to purchase a house with the money they would have used for a college education and use it for a down payment on a house. The soldier in the AIM program fills out some paperwork and within weeks the funds are moved from his college account into the Army Home Ownership account."<sup>23</sup>

The first new option AIM offers is the Army Home Ownership (AHO) program. The AHO program offers two options- The soldier can use the enlistment or reenlistment funds for a down payment on a house, or they could choose to use the funds to cover their existing mortgage. The mortgage option is limited to the funds in the soldier's account. The Army's first-term retention rates typically hover around 25-40%. So between 60-75% of soldiers do not reenlist after their first term of service. The AHO program may greatly assist in raising the first-term retention rates. If a soldier enlists in the Army and receives a bonus of \$30,000 for college, the funds are placed in the dollar/incentive warehouse. The soldier is not allowed to touch the funds/incentives until after his first enlistment. The Army needs to change the AHO program to allow the soldier to use the funds during his second term of enlistment, thus assisting in increasing first-term retention rates. In the example above, the soldier can chose to shift the funds after his first-term to the AHO program and use the \$30,000 as a down payment on a house or spread disbursement of the \$30,000 over a period of time to reduce his monthly mortgage payment for a period of time. The draft Army plan would offer approximately \$15,000 for a three year enlistment and up to \$45,000 for a five to six year enlistment. See Table 5 and 6 below for the options the Army is considering for the AHO program.<sup>24</sup>

Enlistment Length	3 Year Active Enlistment	4 Year Active Enlistment	5-6 Year Active Enlistment
AHO Mortgage Payment (Which ever comes first)	3 years or \$15,000	4 years or \$30,000	5-6 years or \$45,000

TABLE 5 ENLISTMENT AHO DOWN PAYMENTS<sup>25</sup>

Enlistment Length	3 Year Active Enlistment	4 Year Active Enlistment	5-6 Year Active Enlistment
AHO Mortgage Payment (Which ever comes first)	3 years or \$15,000	4 years or \$30,000	5-6 years or \$45,000

TABLE 6 ENLISTMENT AHO MORTGAGE PAYMENTS<sup>26</sup>

The second new option offered in the AIM program is called the Army Entrepreneur Program (AEP), which provides another flexible option for soldiers when they enlist or reenlist. This investment program offers young soldiers a sense of empowerment, which fits right into the

youth's belief that work benefits should be tailored to meet their needs. The AEP is offered to soldiers who have aspirations of starting their own small business. This is a great program that offers initial equity or seed money for a start-up business loan.

The AEP is offered at the start of the soldier's enlistment or reenlistment. Soldiers can use their enlistment bonus for the SBA loan after they have successfully completed their first term of service. But this offer is only available if the soldier qualifies for a small business loan. In order to do this the soldier must develop and get their small business plan approved by a bank or lending institution. Once a soldier qualifies and chooses the AEP incentive, the Army transfers the funds to the Small Business Administration (SBA) or possibly another controlling agency. The money that is transferred to the SBA is used as seed money for the start-up a small business loan.<sup>27</sup> If the soldier leaves the Army prior to the end of his first enlistment, then the money stays in the Army account to assist with getting this program started. Soldiers can use these funds while they are on active duty, or can wait until they leave the Army to use the funds. This is a great incentive for soldiers aspiring to start their own business or to support a spouse at home who is interested in starting a small business. Despite these measures additional reforms are needed.

#### Additional Reforms

Although the Aim program goes along way in solving potential retention problems, it does not go far enough. Additional measures should be taken. I suggest four options that fit the parameters of the Army Retention Model. Senior Army leaders should consider these four options to ensure Army retention rates remain high and thereby enhance the Army's readiness to conduct missions: The four options are to Increase monetary incentives, revise the REDUX retirement plan, establish a Career Professional NCO Corps, and fund a two-four - year college education plan for soldiers and their family members.

#### Army Monetary Incentive Programs

First on the list of my retention reform programs is a review of the Army monetary incentives program. The Army has increased the size of reenlistment bonuses, benefit packages, and other incentive packages with some success. But given the increased demands of multiple extended deployments, the Army should consider increasing bonuses/pay incentives for critical mid-grade NCOs that the Army is beginning to lose. The Army should consider increasing allowances in the Selective Reenlistment Bonus (SRB), provide lump-sum tax-free reenlistment bonuses even if soldiers are not deployed in a combat zone, and offer low-interest home loans.

The first incentive recommendation for the Army G-1 to consider revising is the SRB program. The SRB has enabled the Army to avert shortfalls of soldiers and critical NCO leadership that would have a negative impact on the operational readiness of our force. The SRB offers money to eligible soldiers, primarily in the grades of Specialist to Staff Sergeant, to reenlist in skills that are critically short in the Army. The current policy offers lump sum SRB payments of \$10,000, \$15,000, \$20,000, \$30,000 or \$40,000, depending on shortages in the Army's most critical occupational skills.<sup>28</sup> The SRB program has worked well for the past few years, but payments must be increased for it to remain effective. Because our economy is on the up-swing, and civilian employers offer competitive salaries, the current dollar amounts of the SRB will not continue to entice soldiers to reenlist. Since the SRB program has been offered for a few years, soldiers are familiar with the program. Current monetary rewards are no longer competitive as higher paying jobs are offered to soldiers and NCOs leaving the Army. It is very simple: The Army needs to upgrade the current SRB program to remain competitive with the civilian job market.

Certainly the current SRB stipends alone are not sufficient to encourage soldiers to stay in an Army that will immediately deploy them for long periods of time away from home. Beyond substantially increasing the SRB bonuses DOD should also provide a way for the soldiers to put their bonuses in an interest-bearing, tax-free account. Higher bonuses, - along with soldiers' ability to invest bonuses in an interest-bearing, tax-free account - will entice more critically short MOSs to remain in the military. Money has always been one of the major reasons that soldiers decide to reenlist in the all-volunteer Army.

The second incentive recommendation the Army should consider is to provide lump-sum tax free reenlistment bonuses to soldiers even if they are not currently deployed in a combat zone. The current policy offers tax-free reenlistment bonuses only if soldiers reenlist while serving in a combat zone. The President designates combat zones by Executive Order. An area usually becomes a combat zone or ceases to be a combat zone on the dates the President so designates in the Executive Order.<sup>29</sup> Prior to January 2005, soldiers had a wait for their reenlistment window to open, normally three to twelve months prior to their separation date, before they could reenlist. This policy made it difficult for soldiers to take advantage of the tax-free reenlistment bonuses because not all soldier's reenlistment windows opened during their deployment to combat zones. In January 2005, the Army decisively changed that policy and announced the new Army Deployed Reenlistment Bonus Program. This new policy allows soldiers to reenlist outside their reenlistment windows to take advantage of the tax-free

reenlistment bonus program provided a bonus of up to \$15,000.<sup>30</sup> A soldier can now decide to reenlist while deployed and thus qualify for a tax-free reenlistment bonus.

The third incentive the Army needs to enhance is the new Deployed Reenlistment Bonus Program. The Army should consider making all reenlistment bonuses tax-free, whether the soldier is deployed in a combat zone or not. The problem with the current program is that soldiers need to be deployed to a combat zone to take advantage of it. The Army just announced several new bonuses for those who agree to stay in. These include up to \$15,000 for deployed soldiers, which was boosted to \$22,500 between July and September in an effort to make up for the Army's recruiting shortfall. New bonuses of up to \$50,000 were offered to soldiers with vital skills who stay in beyond 20 years. On average, soldiers who reenlist are receiving bonuses of \$6,000 to \$12,000, according to Army. I recommend that all these new bonuses become tax-free.<sup>31</sup> Once the operations in Iraq slow down and our troops return to their home bases, this program will not enable the Army to retain quality soldiers. But a broader policy would allow all soldiers to take advantage of the tax free reenlistment bonus opportunity, not just those currently deployed to a combat zone.

#### Retirement Benefits

The second recommendation for the Army G-1 is to revise the retirement benefits. As you recall, at the very bottom of the list of fifteen reasons soldiers are getting out of the Army is retirement benefits. It is reasonable to speculate that the reason retirement benefits are not very important is because most soldiers who depart the Army are young soldiers in their first or second terms of service, so they have little concern about retirement. That is, they are not interested in the Army as a career; thus retirement benefits are not important to them. But I argue that the people we really want to retain are already into their second term and are very interested in retirement benefits.

The first retirement recommendation to increase retention is to modify the Military Retirement Reform Act (REDUX), which is one of two retirement options for military members that entered the military after 1986. This plan should be modified to convince soldiers with critical military occupational skills to stay in the Army. DOD should increase the bonus from \$30,000 to \$60,000, and make it available to all soldiers in critically short occupational skill areas. This greater incentive will encourage the soldiers and junior NCOs that our Army readiness requires to stay in the military. This increase is justified since the cost to train a new soldier is approximately \$300,000. Further, by way of comparison, the Army recently increased re-enlistment bonuses for Special Forces soldiers to \$150,000.<sup>32</sup>

Those members who elect the REDUX retirement system at their 15th year of service then receive a \$30,000 Career Retention Bonus. To qualify for this bonus, the member must agree to complete a twenty-year active duty career. The member may continue beyond twenty years, but the obligation extends only to 20 years.<sup>33</sup> For each of the first 20 years of service, the service member receives 2% increase in retirement pay (the High-3 plan offers 2.5%), which is equal to 40% of their base pay at a 20-year retirement. Then for every year after the 20<sup>th</sup> year of service, the service member receives a 3.5% (the High-3 offers 2.5%) increase in retirement pay.<sup>34</sup> This means that the retirement multiplier for a 30-year career (75%) is the same for both REDUX and High-3. Army statistics show that more and more NCOs are declining the SRB incentive.<sup>35</sup>

Years of service	20	22	24	26	28	30
REDUX	40%	47%	54%	61%	68%	75%
High-3	50%	55%	60%	65%	70%	75%

TABLE 4

The advantage of REDUX is that it affords those taking the Career Retention Bonus an opportunity to invest the bonus and save for the future. The SRB offers service members an opportunity to invest the \$30,000 bonus offered at their 15th year and, then earn interest on the investment. With the economy on the upswing and interest rates rising, this option is becoming more attractive than it was in the past. However, on the downside, soldiers electing this option receive only 40% of their base pay after a 20-year retirement. Bottom line is a soldier electing the REDUX plan needs an option to quickly invest the \$30,000; otherwise, many will splurge on luxury items and not think about their future. If the soldier takes the REDUX option and uses the \$30,000 for luxury items, then they are at a big disadvantage when they retire at 20 years. Soldiers with the REDUX plan that squandered their \$30,000 will then receive 10% less per month than the soldiers who chose the High-3 plan, which gives the soldiers 50% of their base pay after a 20-year retirement.

Thus many REDUX soldiers who retire after 20 years will receive 10% less retirement pay than their High-3 counterparts. For example, a Master Sergeant with 20 years of service is paid \$4071.60 a month. The retirement pay for a Master Sergeant who chose the REDUX (40% of Base Pay) is \$1,628.64 a month, but a Master Sergeant that chose to stay with the High-3 (50% of Base Pay) would receive \$2,035.84 a month.<sup>36</sup> The Master Sergeant on the High-3 plan will receive \$407.16 more a month. The Master Sergeant on the High-3 receiving \$407.16 more a month can make up the \$30,000 that the REDUX Master Sergeant received in only six years.

REDUX soldiers must remain in the service for 30 years to receive the same 75% retirement as a High-3 soldier. When soldiers stay in the Army for 30 years, then the REDUX plan is better, because both the REDUX and the High-3 receive 75% of their pay at after 30 years of service, but the REDUX soldiers also received the \$30,000 bonus in their 14<sup>th</sup> year of service. This additional ten years is a big commitment with the high operational tempo of our Army on extended deployments.

The second retirement recommendation is to do away with the High-3 retirement system and go back to old retirement pay system. For military members who entered the military after 1986 their retirement is calculated use the High-3 system, which provides for a 50% retirement after 20 years of service. This 50% is based on the average of the highest three years pay. The Army needs to change this back to the system used prior to 1986. The old method offers retiring soldiers 50% of their base pay, which is based on their highest base pay. This system simply offers more retirement pay. For example, a Master Sergeant with 20 years of service earns \$4071.60 a month. A Master Sergeant with the High-3 plan received 50% of the average of the last three years base pay. The last three years pay for a Master Sergeant retiring with 20 years of service is \$3,753.30, \$3,964.50, and the 20<sup>th</sup> year is \$4071.60. The average of these last three years pay is \$3,929.80. The monthly retirement pay then equals 50% of the average base pay, which is \$1,964.90. A Master Sergeant on the old retirement system earned 50% of their last paycheck, which is \$2,035.80 instead of the \$1,964.90 for a soldier on the new system. This is a difference of \$70.90 per month or \$850.80 more in retirement pay every year.

A third option to improve the Army retirement system is to transfer the annual housing allowance and make it a part of their basic pay. The military housing allowance rates continue to improve at a rising rate of 5.9% per year.<sup>37</sup> Even though the housing rates are rising every year, it is not calculated into a soldiers retirement pay. This year the military is receiving a 3.1% pay raise and a 5.9% rise in housing allowances.<sup>38</sup> Even though the housing allowance is tax-free, it would better serve soldiers if it was calculated into their retirement pay. A 5.9% increase of a soldiers basic allowance for housing that is \$1,000 a month, equates to an additional \$59.00 a month. This additional \$59.00 should be added to the soldiers retirement pay. Over a soldier's career, this would significantly increase their retirement take home pay.

#### Career Professional NCO

The third option for the Army G1 is to create a separate category of NCOs classified as Career Professional NCOs (CPNCO). This program would be available to Sergeant (E-5) and, continue through Command Sergeants Major (E-9). This program should be offered only to

critically short NCO MOSs. If the program succeeds, then the Army can consider expanding it to all NCOs. The benefits to the NCOs that qualify as CPNCOs would include a sign-up bonus, 20% higher pay than other NCOs, INDEF status, and first choice of assignments.

In order for the Army to entice critically short NCOs into this program, the DOD should offer a sign-up bonus of \$25,000. The advantage of this program is that the NCOs will receive twenty percent more pay than the other NCOs with the same rank and time in service. A Staff Sergeant with 14 years of service earns \$2859.90 a month, while a Staff Sergeant with 14 years of service in the CPNCO program would earn \$3431.88 a month.<sup>39</sup> This provides an additional \$571.98 a month, which adds up to \$6,863.76 more pay a year.

Another advantage of this program is that it provides the CPNCO first choice of follow-on assignments, which will add to the CPNCOs quality of life. They can then discuss future assignments as a family and be confident that they will get the desired assignment. The advantage to the Army is that these CPNCOs serve in indefinite status, so the Army can require their continued service beyond an arbitrary date of expiration of service. This will allow the Army to keep these critically short NCOs when they are needed for longer periods of time. This plan also provides better planning data on NCOs because it enables the Army to eliminate uncertainty regarding reenlistment.<sup>40</sup>

There are a few disadvantages to the CPNCO program, the greatest of which is that it may create friction or resentment between the two groups of NCOs. The resentment will be similar to the issues the Army had in the 1970's. Back then, the Army enlisted ranks included specialist ranks from specialist enlisted 5 to specialist enlisted 7. This rank system created friction between a Sergeant (E5), which is a Non Commissioned Officer and a Specialist 7 that had many more years of service, but was not a Non-Commissioned Officer. The Army needs to ensure that the NCO population is fully informed on the CPNCO program and that all parties know that NCOs who chose enter the program are critical to the military's readiness. If this program is successful and the Army eventually decides to open the CPNCO program to all NCOs, then the resentment issue would disappear. A second disadvantage is that NCOs entering this program lose opportunities for reenlistment bonuses since they are serving in an INDEF status. A third disadvantage is that the NCOs don't have an ETS date and may choose to stay on active duty longer than they anticipated or than the Army needs them.

#### College Education Funding

The fourth option for the Army is to change the options for the two to four year college education funds that the soldier receives. The Army's current College Fund pays for the college

costs for the service member only. The Army G1 should change the policy to allow soldiers to transfer the college funds to their wives or children. Many soldiers change their mind about getting a college degree, so a great incentive to retain quality soldiers is to allow them to transfer the college funds to their family members. This incentive option does not increase the cost for the Army and is a no cost option that can assist with retention.

#### Summary of Additional Reforms

I analyzed four different additional reforms that the Army should consider to increase retention: Army incentive program, retirement benefits, Career Professional NCO and college education funding. Although all four of the additional reforms will help increase retention, I recommend that the Army initially concentrate on developing a CPNCO and allowing soldiers to transfer the college funds to their wives or children.

The CPNCO option allows the Army G1 to focus on retaining critically short NCO MOSs. In the short term this is a great solution so the Army can maintain the critical skills and combat experience in junior NCOs that is critical to the success on the modern battlefield. Then if the program succeeds, the Army can consider expanding it to all NCOs. I believe this option gets directly at the solution of retaining soldiers in critically short specialties and will appeal to the NCOs because it offers a sign-up bonus, 20% higher pay than other NCOs, INDEF status, and first choice of assignments.

The second additional reform the Army G1 should consider allowing soldiers to transfer the college funds to their wives or children. This option does not cost the Army any additional money, but gives the flexibility that the new generation of soldiers is looking for.

#### Conclusion:

If the Army fails to address the enlisted retention issue in the near future, departures of experienced NCOs will have a detrimental impact our military's ability to provide for our nation's security. Increasing operational tempo and extended deployments are already hindering retention of quality mid-grade NCOs and soldiers. Recent Army retention statistics seem to paint a rosy picture. However, these statistics are not reliable, because the Army's current stop-loss program is keeping critical mid-grade NCOs in the Army who have already filled their enlistments. All services are short of people in key occupations.<sup>41</sup> Some observers suggest the solution is to bring back the draft.<sup>42</sup> But returning to the draft would be a big mistake. With the all volunteer system, the Army can choose who they want to enter the Army. But with the draft, the Army will end up getting far less motivated and qualified soldiers.

The best retention options available to reduce the risk of failing to maintain a ready army are to allow soldiers to transfer college funds to family members, implement the Army Incentive Model and create the Career Professional NCO category. The Army Incentive Model offers exactly what the Millennium Generation is looking for-- benefits tailored to meet their wants and needs and getting what they want... when they want them... how they want them. They have a reasonable expectation of such rewards. The Army should also create the Career Professional NCO corps, to assist in retaining the highly qualified NCOs needed to fight and win our Nations wars.

#### Endnotes

<sup>1</sup> David Jablonsky, "Introduction to National Security Policy and Strategy," National Security Policy and Strategy Course Directive (Carlisle Barracks, PA, 2005) 13.

<sup>2</sup> Rumsfeld, iv. Secure the United States from direct attack. We will give top priority to dissuading, deterring, and defeating those who seek to harm the United States directly, especially extremist's enemies with weapons of mass destruction (WMD)

<sup>3</sup> Ibid.

<sup>4</sup> Donald H. Rumsfeld, *The National Defense Strategy of the United States of America*, (Washington, D.C.: Department of Defense, March 2005), 2

<sup>5</sup> Ibid

<sup>6</sup> U.S. Department of the Army, *Army Retention Program*, Army Regulation 601-280 (Washington, D.C.: U.S. Department of the Army, 2 June 2005), 1

<sup>7</sup> Lieutenant General Frederick E. Vollrath, "U.S. Army Recruiting Command Statement," 105<sup>th</sup> Congress, (1998):1.

<sup>8</sup> U.S. General Accounting Office, *Military Personnel: Preliminary Observations on Recruiting and Retention issues within the U.S. Armed Forces* (Washington, D.C.: U.S. General Accounting Office, March 2005), 9.

<sup>9</sup> Michael O'Hanlon, "The Need to Increase the Size of the Deployable Army", Parameters, Autumn 2004, pp. 4-17.

<sup>10</sup> Ibid., 46

<sup>11</sup> Ibid.

<sup>12</sup> Ibid., 10.

<sup>13</sup> Ibid., 52

<sup>14</sup> Ibid 34

<sup>15</sup> Theodore E. Devlin, *Recruiting and Retention, A Force Planning Dilemma*, Strategy Research Project (Carlisle Barracks: U.S. Army War College, 7 April 2003), 26

<sup>16</sup> LTC Sterling, "Army Incentive Model White Paper", Draft white paper, Department of the Army G1, December 2005, page 1.

<sup>17</sup> Ibid

<sup>18</sup> Ibid., 1

<sup>19</sup> Ibid

<sup>20</sup> Ibid., 5

<sup>21</sup> Ibid., 3

<sup>22</sup> Ibid., 2

<sup>23</sup> Ibid.

<sup>24</sup> LTC Jeffrey Sterling, "Army Home Ownership (AHO) and Army Entrepreneur Program (AEP)", Concept Paper and Plan, Department of the G1, 14 April 2005, page3.

<sup>25</sup> Ibid., 3

<sup>26</sup> Ibid.

<sup>27</sup> Ibid., 5

<sup>28</sup> MILPER Message Number: 04-225, "Selective Reenlistment Bonus (SRB) and Location Selective Reenlistment Program," available from [http://www.stayarmy.com/messages/srb/MILPER2004\\_225.htm](http://www.stayarmy.com/messages/srb/MILPER2004_225.htm); Internet; accessed 15 November 2005.

<sup>29</sup> About.Com, "Army Deployed Reenlistment Bonus Program," Available from <http://usmilitary.about.com/od/armybonuses/a/ardeploybonus.htm>; Internet; accessed 12 January 2006.

<sup>30</sup> Ibid

<sup>31</sup> Ann Scott Tyson, "GIs in Iraq Choosing to Re-Up; Army Exceeding Retention Goals as Recruitment Suffers," The Washington Post, Washington, D.C. December 18, 2005.

<sup>32</sup> No Author, "Bargain Bonus," Harrisburg Patriot-News, 25 November 2005, sec A, p. 2.

<sup>33</sup> The Military Family Network, "Pay and Benefits," available from <http://www.emilitary.org/pay3.html>; Internet; accessed 12 November 2005.

<sup>34</sup> Ibid., 3

<sup>35</sup> Department of Army, "Army Stop Loss Message #4," available from <http://usmilitary.about.com/od/terrorism/l/blarstoploss4.htm>; Internet; accessed 12 November 2005.

<sup>36</sup> Military.Com Benefits and Resources, "2005 Military Pay Charts," Available from <http://www.military.com/Resources/ResourcesContent/0,13964,78426,00.html>; Internet; accessed 13 November 2005.

<sup>37</sup> Gordon Lubold, "New BAH rates", Army Times, January 2006, available from <http://www.armytimes.com/story.php?f=0-ARMYPAPER-1429245.php>; Internet; accessed 23 February 2006.

<sup>38</sup> Rick Maze, "Your 06 Pay and Bennies", Army Times, January 2006, available form <http://www.armytimes.com/story.php?f=0-ARMYPAPER-1434350.php>; Internet; accessed 23 February 2006.

<sup>39</sup> Ibid

<sup>40</sup> For a discussion of the origins of a "professionalized" NCO corps see Mark R. Grandstaff, Foundation of the Force: US Air Force Enlisted Personnel Policy 1907-1955 (Washington, D.C.: The Office of Air Force History, 1997), especially Chapter 5.

<sup>41</sup> On average across the services, some 30% of enlisted occupational specialties were under staffed between 1999 and 2004, and some 40 percent were overstaffed. Congressional Budget Office, Budget Options (Washington, D.C.; CBO, February 2005), Chapter 2, "National Defense," p. 43.

<sup>42</sup> Charles Moskos, "Feel that Draft", Chicago Tribune, June 8, 2005.